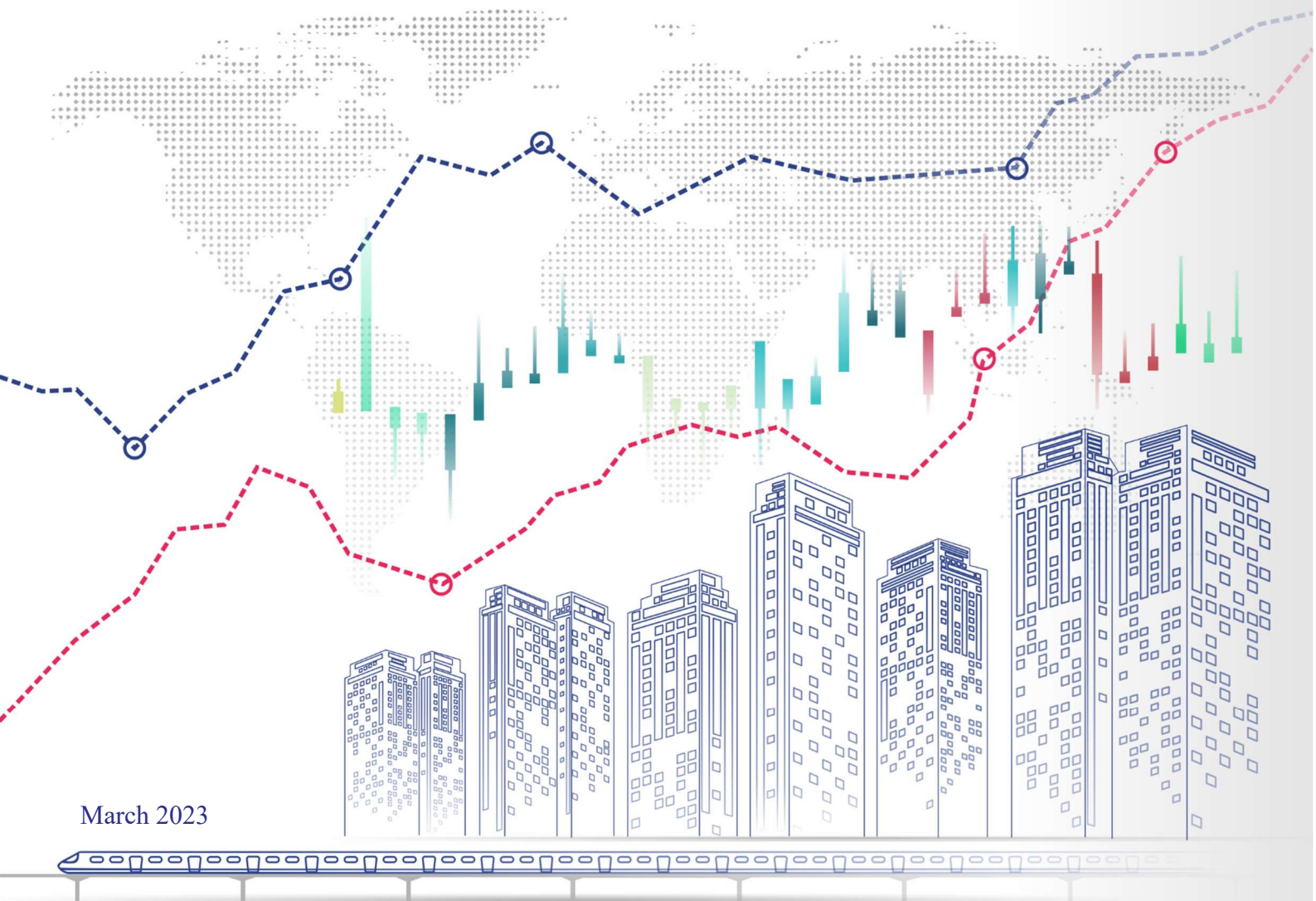


Research and Policy Insights on Financial Markets and Economy

Free Trade Agreements (FTAs) by India: Review and Implications for Future

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March 2023

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Free Trade Agreements (FTAs) by India: Review and Implications for Future

» Overview «

Preferential trade regimes have increased globally, and India has also joined the bandwagon by signing 13 FTAs. With the government showing more interest, there are ongoing discussions with other countries such as UK, Canada, and the European Union. However, with the exception of FTAs with its South Asian neighbours, India has faced the issue of a secular rise in trade deficit and a reduction in export potential of competitive sectors, thus reducing the effectiveness of such agreements. This brief analyses previous FTAs from a trade deficit and export potential perspective. We outline India's learnings from its previous FTAs and suggest findings from literature that could help in the future negotiation of FTAs. We suggest that relaxation of stringent rules of origin (ROO) requirements, trade facilitation measures, and domestic policies can improve the scope and potential of future FTAs.

The authors would like to thank Prof. Rupa Chanda, IIM Bangalore and Prof. Sanket Mohapatra, IIM Ahmedabad, for their comments on this brief.

The Research and Policy Insights on Financial Markets and Economy series aims to provide operationally relevant perspectives from research in a concise and cohesive manner. These notes provide an overview of research on contemporary issues, highlight international or India-specific experiences, and explore policy implications and directions for the future.

Free Trade Agreements (FTAs) by India: Review and Implications for Future

1. Introduction

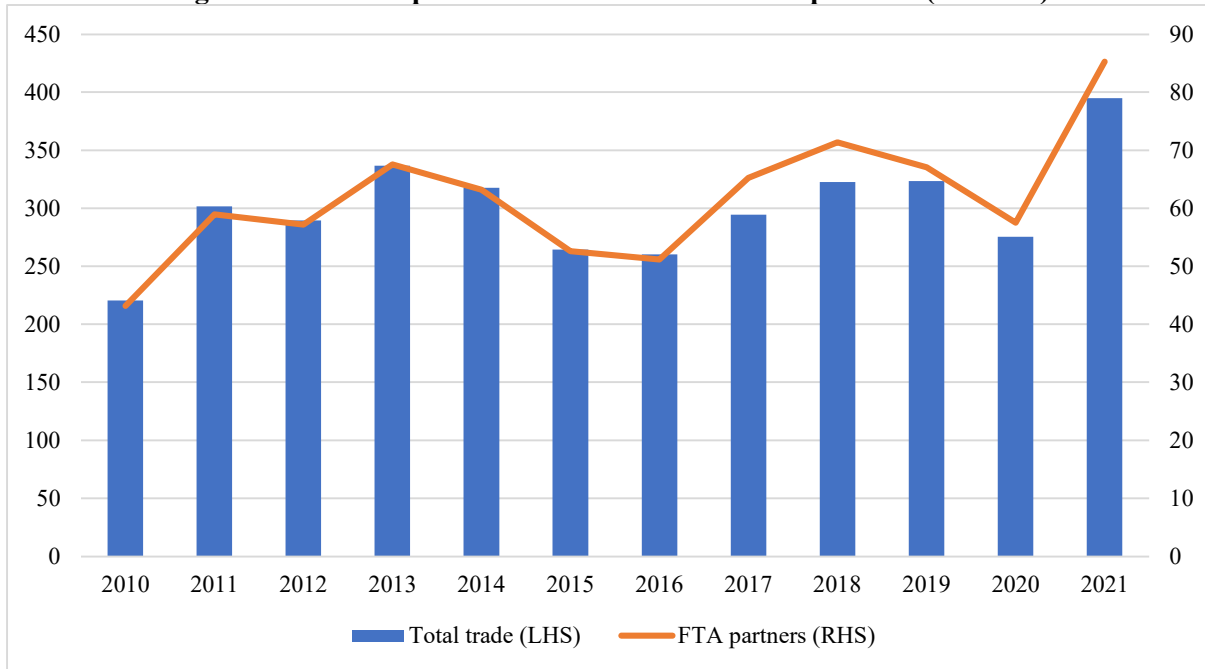
Trade agreements have proliferated since the early 2000s. As of March 2022, 354 such agreements are in force between the various World Trade Organisation (WTO) members (WTO, 2022). These member-exclusive agreements allow participating countries to open their borders to free trade. Even though such agreements are discriminatory in nature, they are permitted by the WTO.¹ Trade agreements occur at varying degrees of openness. The lowest level of integration involves preferential trade agreements (PTA), which are limited to reductions in tariffs for a select list of goods (ITC, n.d.). According to the Indian government, Free Trade Agreements (FTA) offer a deeper form of integration through tariff reductions in larger classes of goods (GOI, 2020). Further, Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA) allow for even deeper trade dynamics through provisions in services, investments, and intellectual property (TPCI, 2022).

Over the years, India has entered into different kinds of trade agreements. These agreements, in addition to preferential rates of tariff, also provide deeper integration in areas such as services, investment, and intellectual property (Singh, 2022). India's foray into trade agreements began in 1975 when it signed the Bangkok agreement (GOI, 2013). As of now, there are a total of 19 agreements in place, 13 of which are considered as free trade agreements (FTA), and 6 are preferential trade agreements (PTA) (GOI, 2022a). In the past, India remained a cautious player in negotiating FTAs (Palit, 2022). All the FTAs signed were confined to Southeast Asian/ East Asian countries. In contrast to FTA partners such as South Korea, Vietnam, and Bangladesh, which vigorously developed their export orientation, India's overall goods exports had been stagnant at around USD 300 billion for a decade (see Figure 1). During this period, trade to FTA partners hovered around 20 percent, as seen in Figure 1.

The bulk of the FTAs in place today were signed within the first decade of the 2000s. The sweeping trade deficits India incurred over the years are at the forefront of the FTA story. Figure 2 shows that in 2021, India registered positive balances only with its South Asian trade partners (Sri Lanka, Nepal, Bhutan, and the SAFTA members). In contrast, the FTA story has been especially laggard with East Asia, as India crosses a decade of agreements with countries such as Japan, South Korea, and the ASEAN.

¹ Member countries under a trade agreement reduce tariffs below the 'Most-Favoured Nation (MFN)' tariff rate, which is otherwise applicable to all WTO members.

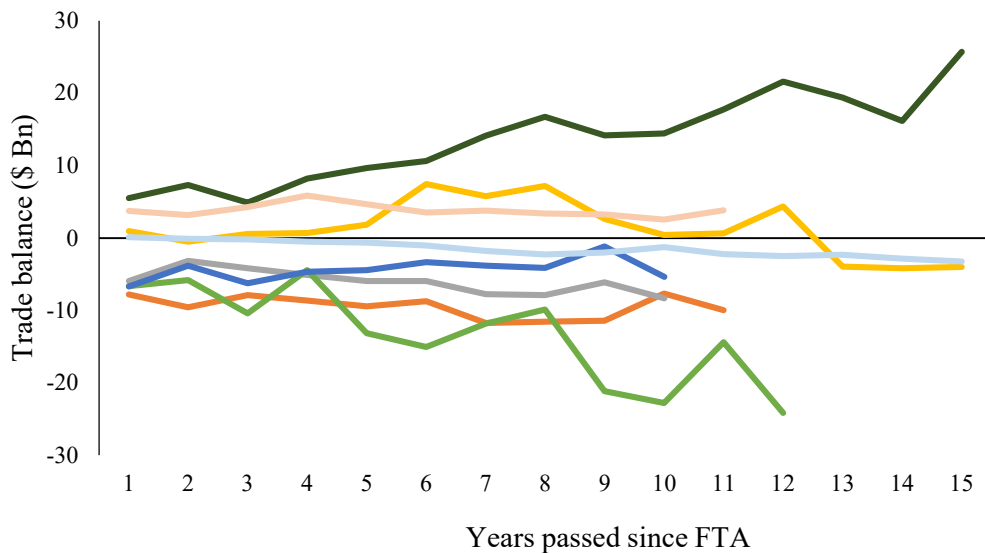
Figure 1. India's exports to the world and the FTA partners (\$ Billion)



Source: Authors' calculations based on UN Comtrade trade database.

Note: Years refer to financial years. 2021 refers to the financial year 2021-22.

Figure 2. India's trade balances over the years with its FTA partners



List of FTAs along with the year of ratification year and implementation

- Sri-Lanka (1998; 2001)
- South Asian FTA (SAFTA) (2004; 2006)
- Thailand (2004)
- Singapore (2005)
- South Korea (2009; 2010)
- ASEAN CECA (2009; 2010)
- Japan (2011)
- Malaysia (2011)

South Korea Japan Singapore SAFTA
 ASEAN Malaysia Thailand Sri Lanka

Source: Authors' calculations based on UN Comtrade trade database.

Note: Includes FTAs signed after 1998. The chart shows the trade balance from the year of implementation. A positive balance indicates India has a trade surplus while a negative indicates a trade deficit.

As opposed to goods trade, India has a competitive edge in services. India's overall services exports grew 73 percent between 2010-21.² Incorporating this competitive advantage, agreements with East Asian nations (such as South Korea, Japan, Singapore, Malaysia, and ASEAN) have provisions for services (GOI, 2020). Even so, services trade has not proliferated through these agreements (Chanda & Tokas, 2020; Kanungo, 2021).³ For instance, ex-ante, a high degree of complementarity was observed between India's service sector and that of Japan's (India-Japan JSP, 2006). As Chanda and Tokas (2020) show, eventually, this did not materialize into a robust services trade between India and Japan.

A cost-benefit analysis of FTAs, however, should not be limited to simply an assessment of their impact on trade balances since there are potential gains in the form of technology transfer, value-added linkages, trade-related investment flows, and improved access to a greater variety of intermediate goods and services, which cannot be captured through trade balances (Chanda & Tokas, 2020). For instance, foreign direct investments (FDI) from an FTA partner can aid a country through brown- and green-field investments, even if one partner observes a current account deficit bilaterally. Taking stock of investments by FTA partners, data reveals that together they have contributed to nearly 30 percent of FDI equity inflows between 2000-2022.⁴ Within this, the largest chunk was contributed by Japan and Singapore – both of which are countries which have featured in India's top 10 sources of FDI over the years as per mentioned data.

2. What ails India's goods exports?

In order to understand the effectiveness of trade agreements, they should be viewed against their trade potential (Chanda & Tokas, 2020). In all the FTAs signed so far, India promoted products such as textiles, minerals, agricultural products, precious stones, cement, and glass (GOI, 2020). Measures of Revealed comparative advantage (RCA) have been used to help assess a country's export potential (WITS, 2022a).⁵ The goods promoted by India in FTAs were competitive goods that initially displayed a high RCA. The RCA values for 20 goods categories (aggregated at the HS-01 level) which cover the entire set of goods exports from India are shown in Figure 3.⁶ These values are shown at three different points in time, spaced about a decade apart in the pre-COVID period. As can be observed, there is a clear drop in RCAs of several goods promoted through FTAs between 2000-2019. The only categories where India seems to have developed a comparative advantage during this time period are chemicals and metals (where the RCA has increased and remains beyond 1). With several Indian products being promoted through FTAs, we discuss various factors that have contributed to the reduction of India's export competitiveness over time:

² Estimated using services trade data from UNCOMTRADE.

³ A comprehensive picture of services trade under FTAs is limited in the absence of public data on bilateral services trade (Kanungo, 2021).

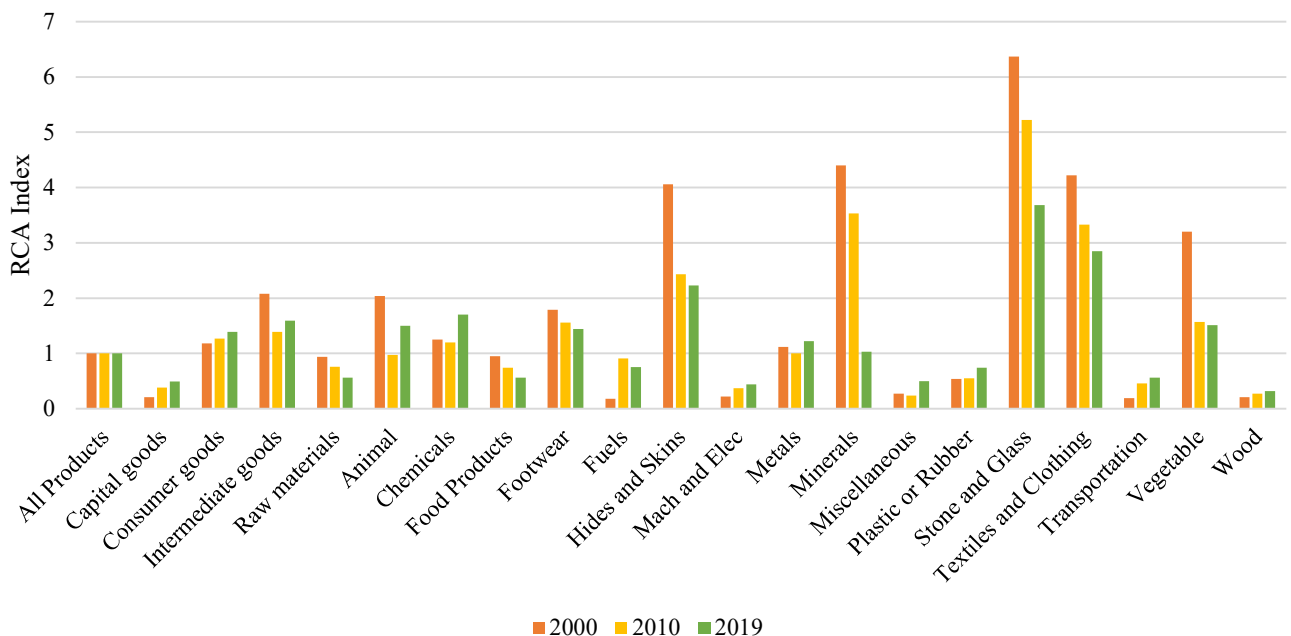
⁴ https://dpiit.gov.in/sites/default/files/FDI_Factsheet_March_2022_23May2022.pdf

⁵ The RCA index is defined by (Balassa, 1965) as the ratio of exports of a product i to a country's total exports versus the same ratio for the world's exports of product i . An RCA greater than one indicates a comparative advantage in the product of interest.

⁶ Following [link](#) provides detailed info about the product groups and aggregation level.

1. *Low value addition*: India's top exports feature low-value added goods such as refined petroleum, gems, and jewellery, as per data from the World Integrated Trade Solution database (WITS, 2022b). The proportion of high-technology goods within manufactured exports has remained around 10 percent over the past decade. In comparison to this, Figure 4 shows that there has been a recent growth in the share of technology exports for many of India's FTA peers, reflecting value-addition. For example, Vietnam has shown an extreme increase in the last decade, and India is discussing a trade agreement with Vietnam (Livemint, 2023). Subsequently, these FTA peers have successfully established a market for their high-value goods in India.⁷ A case in point is South Korea, whose top exports to India include high-value electrical goods and automobiles and imports include low-value metals, minerals, and textiles from India (Banik & Kim, 2022).
2. *Third country competition (India's declining market shares)*: India enjoyed a quarter of the world's market share for textiles in the early 2000s (WITS, 2022c). Over the years there has been an erosion of this market share due to an absence of trade agreements with major importers such as US and EU (DEPR, RBI, 2021). India's market share decreased from 26% in 2000 to 21% in 2003 and declined further in next years. In contrast, major textile exporters such as Vietnam, Malaysia, Turkey, and South Korea have trade agreements in place with at least one major importer. Such trade agreements allowed free entry of textiles when India faced tariffs as high as 32 percent in the US for textile products such as T-shirts (Mukherjee et al., 2019).

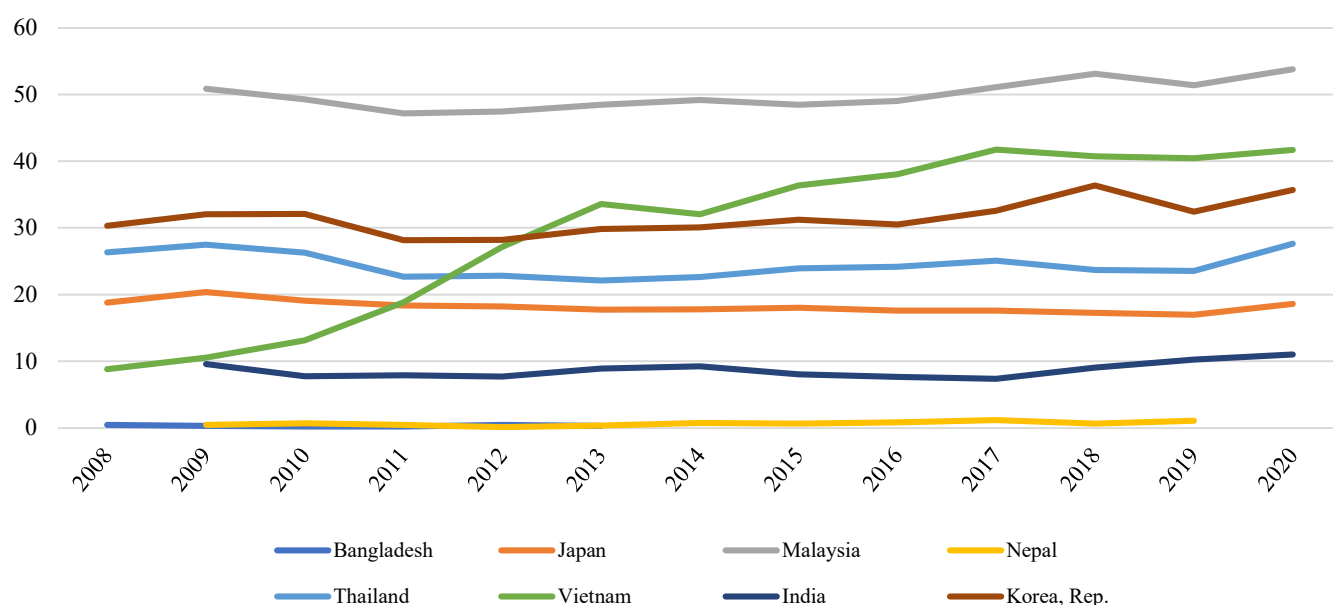
Figure 3. RCA index of Indian exports: 2000-19



Source: WITS (2022b), World Bank

⁷ Exports of high-tech goods form just 4 percent of India's total exports to FTA partners. However, imports of such goods stand at 16 percent (calculated using WITS data).

Figure 4. High technology exports (% of manufactured exports)



Source: WITS (2022b), World Bank

- Competition in similar industries:* Despite India's comparative advantage in primary goods such as vegetables, fruits, cereals, fuel, and minerals – the largest share (24 percent) of exports to FTA partners consisted of metals and semi-manufactured products in 2019. The semi-manufactured products sector is already dominated by China and ASEAN nations such as Indonesia, Vietnam, and Thailand. This creates a lack of structural complementarity in the goods traded and reduces the scope for trade. Research shows that regions that are structurally dissimilar tend to have more scope for trade and hence increase the chances for a more successful FTA (Andreosso-O'Callaghan, 2009). Two trading nations with distinctly different export profiles can be called as structurally complementary to one another. Even to net food importing countries such as Japan and South Korea, India's top ten exports include metals such as steel as per data from WITS (2022b). Steel being a competitive industry in Japan and South Korea; India's steel exports have lower scope for expansion in these countries (TPCI, 2021). It is worthwhile to contrast such a strategy to the one shown by a country like Australia. Australia's exports basket doubles down on its efficiencies which include minerals, and agricultural goods, and has sustained trade surpluses with FTA partners like Japan and South Korea.
- Lack of a vibrant regional trade agreement:* Theory predicts that trade agreements made with neighboring countries should be successful, given lower freight costs and similar cultural connections (Baier & Bergstrand, 2004; Boisso & Ferrantino, 1997; Wonnacott & Lutz, 1989). However, India's trade regionally is highly restricted, even in the presence of an agreement such as SAFTA. For example, the average costs of trade within South Asia are 20 percent higher relative to country pairs in the Association

of Southeast Asian Nations (ASEAN) and over three times higher than the corresponding costs among the countries of the North American Free Trade Agreement (Kathuria, 2018).

5. *Within-country trade barriers*: Complex rules of origin criteria, lack of information on the benefits of FTAs, high compliance costs, and administrative delays dissuade exporters from using preferential trade routes. For example, evidence from the Sri-Lankan FTA shows that there has been a 50 percent decline in FTA utilization by exporters from either side over the years (Pohit & Pal, 2020). The authors explain that this has occurred due to an increase in compliance costs created by new trade regimes. In general, the utilization rate of RTAs by exporters in India is meagre, ranging between 5 and 25% (Saraswat et al., 2018).

Further, India has the highest import tariffs amongst its East Asian and Southeast Asian FTA partners, averaging around 10.21 percent in 2019 (WITS, 2022b). High import tariffs can feed into the cost of exportable products. On a similar note, even though India possesses a large comparative advantage in services, there exists several restrictions to its trade. The latest available estimate of the World Bank's services restrictiveness to trade index (STRI) pegs India at 65 percent⁸ – which is the highest amongst all its current FTA partners (World Bank, 2012). For example, India-Japan signed FTA with provisions for preferential access to telecommunication services, however Japan's STRI index for 'restriction on foreign entry' is 0.099, while the same is 0.159 for India, suggesting higher trade barriers (OECD-STRI, 2021).

6. *Cost and Quality issues*: Often India does not seem to have grown in market share even by virtue of concessional tariff rates offered through an FTA. A case in point is India's fuel and textile exports to Japan. India's fuel exports dropped by as much as 65 percent in the years post the Indo-Japan FTA. Similarly, India has a very low (0.05 percent) share in the Japanese textile market despite zero tariffs applied through the Japanese CEPA (Mukherjee et al., 2019). This points to systemic issues such as quality and cost that undermine the competitiveness of Indian goods.

Other domestic issues

Besides these measures, India's exports have also suffered from non-tariff barriers (NTBs). As academic literature notes, NTBs have become a popular protectionist tool in recent years, and a typical NTB (import controls, state aid, localization policies, TBT and SPS⁹ measures) reduces trade by almost 2-11% (Kinzius et al., 2019). In the past, India faced SPS-related concerns when several countries, such as EU, United States, and Japan, practiced discretionary implementation of SPS measures, at times motivated by self-interest (Kasturi Das, 2008). Analyzing a global database of 200 countries, Kazunobu & Fukunari (2014) suggests that mere signing of a FTA leads to a significant fall in NTBs rates, with the food and tobacco sectors

⁸ This number indicates the level of restrictiveness. A number of 100 signifies foreign ownership is not allowed while a number of 0 represents foreign ownership of more than 99% is allowed.

⁹ Technical barriers to trade (TBT) and sanitary and phyto-sanitary (SPS) measures

benefitting the most. India being one of the largest exporters of food and tobacco products, it stands to benefit greatly from FTAs with effective clauses for a reduction in NTBs.

3. New wave of FTAs: Prospects for the future

India signed free trade agreements with UAE and Australia in 2022 and with Mauritius in 2021. The government has initiated negotiations with countries such as United Kingdom, Canada, and Israel. The new wave of FTAs shows a marked shift in foreign trade strategy. This new strategy comes at the eve of changing geo-political relations, Covid-19 induced supply disruptions, and a global recessionary environment (Palit, 2022). In this context, all of India's current FTA engagements are with countries with which it is working on safeguarding critical supply chains (Palit, 2021). For example, through the Australian CEPA, India seeks to leverage Australia's advantage in critical minerals that can aid in clean energy transition (DFAT-Australia, 2022). Similarly, in addition to being India's primary source of fuel imports the UAE is also a key investor in logistics and infrastructure industries (Palit, 2021). The UK being one of India's largest R&D investors, the FTA would cover foreign investments in India's manufacturing sector through the production linked incentive (PLI) scheme (Deloitte, 2021).

In contrast to previous FTAs which pursued a look-East policy, the new wave focusses on gaining access to the Western and African markets. India's young demography and growing middle class population provides an attractive market for its Western FTA partners (DIT-UK, 2022; Australia Government, 2022). China's strained political relations with countries such as the UK and Australia have also paved for trade diversion towards India. For instance, China-Australia tensions soured when China (Australia's largest wine market) imposed tariffs of up to 212% on Australian wine imports (Ridley et al, 2022). Through the FTA with India, Australia sees significant growth potential for its wine exports (ATIC, Australia, 2022).

Broadly, the recent set of FTAs stand out in the following aspects:

Natural trading partners: Academic literature on natural trading partners identifies factors that would promote robust trade between FTA partners. Prominent among them are the initial volume of trade, geographic proximity, and trade complementarity (Kandogan, 2008; Khadan & Hosein, 2013). In this regard, the UAE can be classified as a natural trading partner, having been featured amongst India's top three trade partners since the past two decades. UAE has been India's largest export market for gems and jewellery, cereal, and fuel. Through the UAE CEPA, these labor-intensive products will receive preferential access (GOI, 2022b).

Unlike UAE, countries such as Australia and United Kingdom do not have as large an initial volume of trade with India. Even so, the trade baskets of these nations show a good degree of complementarity, thus classifying them as natural trading partners.¹⁰ India imports resources and primary products from Australia and exports finished goods. Similarly, the UK's trade basket shows complementarities as India specializes in clothing, IT services, and agriculture

¹⁰The trade complementarity index indicates to what extent the export profile of the reporter matches or complements the import profile of the partner. A high index may suggest that two countries would benefit from increased trade (WITS, World Bank). The TCI for Australia and UK were 60 and 67 percent in 2021 for India.

while the UK has the specialization in pharmaceuticals, automobile components and financial services (DIT-UK, 2022).

Focus on services sector: Previous agreements did not pave for a robust trade in services. For example, the Japanese CEPA was assumed to initiate a deeper engagement in services. However, a decade later market access gains in services have not been realized due to issues such as language barriers, lax law enforcement and weak data protection norms in India (Chanda et al, 2020). However, unlike previous FTA agreements, services are a key component of India's trade relations with Australia and the UAE.

The Australian CEPA is the first agreement where India will include a 'mixed scheduling approach' for its service commitments (Goyal, 2022). The mixed scheduling approach ensures that Australia will always receive India's best market access given in the future to any potential FTA partner (DFAT, Australia, 2022). With regards to the UAE FTA, India's services trade agreement includes 11 services sectors and over 100 subsectors, including inter alia business services, telecommunications, construction, education, tourism, nursing, and finance, besides goods (RBI, 2022).

India's services trade with the UK has shown around 100 percent growth over the past decade, with a sharp increase in various consulting services (DIT (UK), 2021). Through the UK-FTA, services trade is expected to boom, with India gaining in areas such as legal, accounting, education, health, and R&D.

Innovative design: For the first time, India has included digital trade within the ambit of its FTA with UAE. This will help leverage India's advantage in digital payment and e-commerce services. The UAE FTA agreement also involves provisions related to government procurement and data usage (Singh, 2022).

Addressing NTBs such as TBTs and SPS: Recently signed FTAs like Australia-India also address the non-tariff barriers (NTBs) such as TBTs and SPS measures (Singhania, 2023). India's history with NTBs has shown that the use of such measures (both by India and its trade partners) has hampered trade potential (Kibria, 2022).

4. Policy recommendations for enhancing the benefits of FTAs

We focused on several factors in previous sections that suggest just the signing of FTAs will not necessarily bolster trade. The trade agreements should be deep in scope, and there should be a concomitant behind-the-border easing of regulation and measures (Dür et al., 2014). Trade facilitation initiatives allow for creating a seamless environment that will heighten the benefits of an FTA.

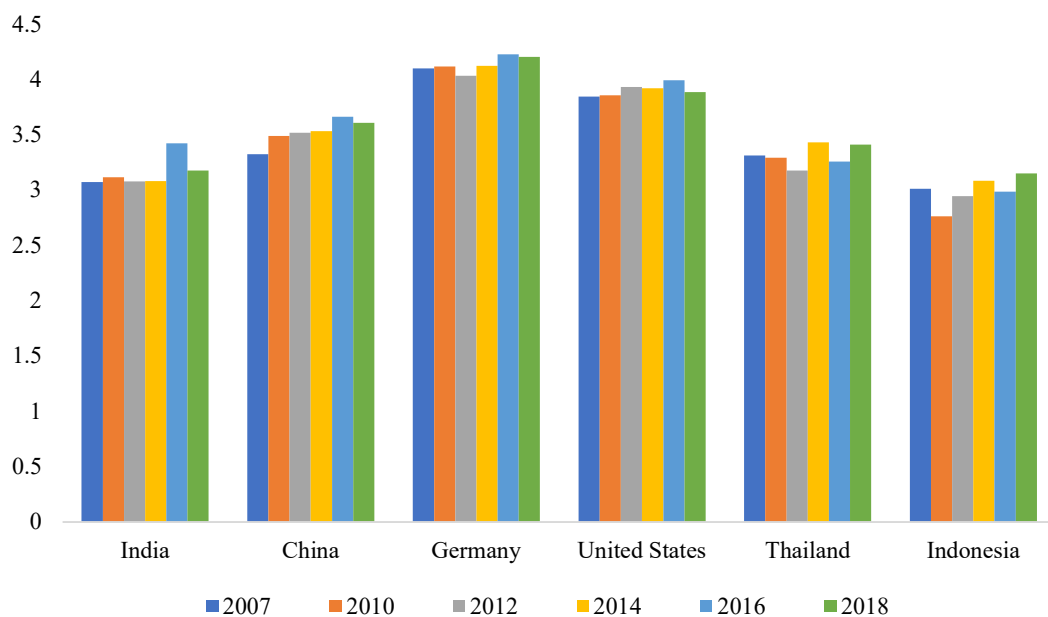
4.1 Trade facilitation initiatives

Academic literature has documented a net beneficial impact of trade facilitation measures on the net trade surplus for India (Wilson et al., 2005; Khorana & Martínez-Zarzoso, 2020). Trade facilitation measures help reduce export and import costs. Generally, these measures can be

grouped into four categories: port infrastructure, customs, regulations, and e-business infrastructure. World Bank incorporates these elements to create a comprehensive Logistics Performance Index (LPI) and ranks countries based on their performance. In 2018, India ranked 44 with a score of 3.18 against a maximum score of five. Among all the indicators of logistics performance, India performed worst in customs and infrastructure.

Low LPI score indicates high logistics costs. To put things in perspective, India’s logistics cost stands somewhere between 13-14 percent of the GDP compared to 7-8 percent of GDP for developed economies. Reducing the cost to the level of developed economies requires a concerted effort from governments and the private sector. To this end, India recently launched its National Logistics Policy with an aim to bring down logistics costs to 10 percent.¹¹ With measures like Integrated digital systems and Unified Logistics Interface Platform, it aims to integrate different departments involved in logistics like road, railway, and customs and create a unified logistics channel and transportation of materials. The policy also discusses the role of the private sector.

Figure 5: Logistics performance index (LPI) score



Source: World Bank LPI database

Note: LPI score ranges from 1 to 5, with 1 rated “very low” and 5 rated “very high”. This [link](#) provides further information about the index.

Experts have pointed out several key factors that have been harming the logistics sector. A survey by Indian Institute of Logistics in 2019 identified overstrained highways as one of the key pain points in logistics performance (McKinsey & Company, 2021). The same study shows

¹¹ <https://indianexpress.com/article/explained/explained-economics/national-logistics-policy-pm-modi-explained-8162784/>

that induction of digital tools at each stage of shipping, from hiring, and receipts to tracking, will reduce the logistics cost by 25 percent. In this regard, India can rely on the upcoming startups aiming to provide a digital solution for the logistics sector problems. From the government side, while initiatives like direct freight corridors and extensive road networks will undoubtedly help, India still overwhelmingly relies on roads for its freight logistics. Railways are cheaper, faster, and more eco-friendly logistics mode than roads (NITI Aayog, 2021).

The logistics sector also faces corruption and irregularities issue in terms of solicitation of informal payments. For instance, only 5 percent of surveyed professionals in Germany reported informal payments as a source of significant delay, while a similar figure for India is 25 percent (Arvis et al., 2018).

India has taken a commendable step by introducing a domestic LPI report on the lines of World Bank, and rank its states based on their logistics performance (LEADS, 2021). While states like Gujarat, Haryana, and Punjab topped the rankings, north-eastern states ranked the lowest. Various policies and regulations of top states like Gujarat, for example, single window clearance, digital interventions for inspection, and integrated logistics policy, can be emulated in lower ranked states.

4.2 Increased FTA utilization rate

Ultimately, the benefits of an FTA can only be reaped if the exporters of participating nations utilize it. The utilization rate of an FTA is the proportion of the exports from country A to country B to the total exports units eligible for preferential treatment (Martí & Verbeet, n.d.).

Various reasons have been cited regarding the under-utilization, ranging from stringent Rules of Origin (ROO) requirements, high documentation costs to lack of awareness regarding FTAs (Bajaj & Sharma, 2022). A detailed report submitted to the Department of Economic Affairs (India) highlights the issue of sub-optimal leverage of FTAs due to India's ROO requirements (IIM Bangalore, 2016). ROO can be understood as the criteria used to determine the national source of a product (WTO-ROO, n.d.). Recent trade agreements like India-UAE CEPA have higher ROO requirements, possibly to benefit and protect domestic producers. Under the UAE CEPA, the exporting good needs to have 40 percent of value addition in its host country. However, while ROO requirements protect the domestic industry and try to avoid circumvention, it adds to the compliance costs and constraints on sourcing decisions, resulting in inefficiency of trade and trade reduction for selected products (Augier et al., 2005). In this regard, a one size fits all approach needs to be avoided, and ROO requirements can be commodity specific in nature, based on the fragmentation of the production process (Conconi et al., 2018). Studies have shown that relaxing ROO requirements in some cases have a beneficial impact on exports of certain products (Tanaka & Fukunishi, 2022).

Second, an FTA, by changing the rule of the existing trade regime, may increase the transaction cost of trading unless complementary steps are taken so that the ecosystem of trading doesn't turn out to be inefficient (Pohit & Deb Pal, 2020). The new trade rules can create increased administrative costs and delays for the traders. For example, the Sri-Lanka-India FTA requires products be tested twice at the port of origin as well as the destination port which leads to logistics delays and disruptions (Pohit & Deb Pal, 2020). Kazunobu et al. (2019) suggests that

FTA utilization rate can go up by as much as 22 percent if the costs associated with shifting to a new trade rule reduces by half.

To reduce the new direct/indirect costs created by the new trade regime and increase the utilization rate, there must be easing of administrative procedures and awareness campaigns about the FTA provisions that fall under the new FTA (Kawai & Wignaraja, 2010). Usually, small and inexperienced firms are deterred from utilizing FTA-related tariff concessions. To ease the administrative procedure associated with FTAs, the Indian government created an online platform for certificate of origin (COO) issuance in 2020 (The Economic Times, 2020). However, several exporters flagged the issue in registering digital signatures (Dhoot, 2021). While these can be categorized as minor issues, they raise the administrative cost of FTAs, thus primarily impacting small-scale exporters.

5. Conclusion

India's solution to developing better FTAs in the future is three-fold. Firstly, as was outlined in the brief – there should be an impetus to policy driven trade facilitation measures. In this regard, the recently launched production-linked incentive (PLI) scheme includes 14 sectors covering manufacturing goods as well as high-tech emerging goods such as drones and electric vehicles. Lauded for its simple, WTO-compliant incentive structure, the PLI scheme can be complemented with provisions for lower tariff barriers for such sectors in future FTAs to improve its scope. Further, the focus on improvement of logistics sector and addressing issues like inverted duty structures as well as inclusion of TBT and SPS in FTA agreements are praiseworthy (Mishra, 2023).¹²

In line with policies that allow trade facilitation, a focus on policy regarding 'Rules of Origin' is necessary to improve FTA utilization rates. The path of ROO rules needs to be treaded carefully given the trade-offs attached. An efficient ROO regime balances the rules in such a way so that products originating in the country benefit the most without putting a pressure on traders regarding sourcing which would dis-incentivise them from using the FTA route. for circumvention as well as factor that it doesn't induce inefficiency due to inputs constraints.

Secondly, there is a need to focus on designing trade agreements that play to our strengths in the services sector. Several past FTAs saw trade primarily takes place in goods, with services being left behind due to stringent NTBs (Chanda and Tokas, 2020). For instance, with the South Korean CEPA, the trade balance shifted in favor of South Korea, which has an advantage in merchandise goods (Banik & Kim, 2022) However, in its FTA with Korea - India could not leverage its competitiveness in the services sector. Thus, in addition to signing new FTAs that have deeper services provisions, there is a need to re-negotiate existing FTAs by incorporating provisions for greater market access for services.

Finally, in order to tap into India's potential in the goods sector – there is a need to move towards manufacturing sophisticated goods over the medium term. For instance, Anand et al.

¹² Inverted duty structure is a situation where inputs or raw materials are taxed at higher rate than finished products. India's textiles have long suffered from such taxes making the domestic products higher compared to imported ones.

(2015) note that in the medium-term, India has the potential to develop high value products and services which are closely related to its current capabilities. The dearth of a vibrant manufacturing sector has reduced India's export capabilities and manufactured goods exports are dominated by low to medium-technology-based products. To improve export potential, India need to shift its focus from low-tech or low-skill products as it would face an incumbency disadvantage against low-cost producers in Asia. The Confederation of Indian Industry (CII) identifies 13 sectors that can contribute to India's export potential (such as chemicals, automotive components, and electrical apparatus). These sectors use high, if not complex, technology involving a moderately high level of research and development (R&D) (RBI, 2022). In this context, given India's strong comparative advantage in IT services, it can focus on related frontier technologies such as artificial intelligence, nanotechnology, and robotics (RBI, 2022). Similarly, in the case of goods, India can diversify into high-quality export-oriented automobile products apart from building automobile components (Anand et al., 2015).

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